AN ANALYSIS OF THE PRESIDENT'S CREDIT BUDGET FOR FISCAL YEAR 1984

March 1983

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables may not add to totals because of rounding.

PREFACE

This analysis of the President's 1984 credit budget was prepared at the request of the House and Senate Budget Committees. It presents the Congressional Budget Office's baseline credit budget projections together with CBO's reestimate of the President's credit budget proposals. The report also provides estimates of the savings in federal outlays that would result from the Administration's proposed credit budget reductions. Finally, it presents a function-by-function examination of the 1984 credit budget.

The paper was prepared by CBO's Budget Process Unit. Richard P. Emery, Jr., wrote the first three chapters. Deirdre B. Phillips and Amy R. White wrote Chapter IV. The authors gratefully acknowledge the assistance of Charles J. Richardson and CBO's cost analysts in developing baseline credit budget projections, and the helpful comments of Linwood T. Lloyd and Marvin M. Phaup of CBO and Edward Brigham of the House Committee on the Budget. Francis S. Pierce edited the manuscript, which was prepared for publication by Paula Gatens and Nancy E. Wenzel.

Alice M. Rivlin
Director

March 1983

CONTENTS

CONTENTS

Page

CHAPTER IV. (CONTINUED)

FIGURES

SUMMARY

The President's credit budget for 1984 continues the Administration's efforts to constrain the credit activities of the federal government. The Administration argues that direct and guaranteed lending by the federal government, which grew rapidly during the second half of the 1970s, must be reduced in order to provide private borrowers greater access to capital markets. It believes that unsubsidized private borrowers frequently make more productive use of available capital funds, and thus contribute more to economic growth. Reduced federal credit activities will also mean lower deficits in the unified budget.

The Congressional Budget Office (CBO) estimates that the Administration's credit proposals would succeed in holding the annual amount of new direct and guaranteed lending for the next five years below the 1983 level. This would represent a reduction of almost $150 billion from what would otherwise occur under current polices. New direct loan obligations would remain relatively constant at approximately $38 billion over the next five years, while primary guarantee commitments would be allowed to rise gradually from $86 billion in 1984 to $96 billion in 1988.

THE CREDIT BUDGET UNDER CURRENT POLICY

Over the past ten years direct loan obligations and primary loan guarantee commitments grew from $36.8 billion in 1974 to $144.1 billion in 1983, almost a fourfold increase. 1/ The Congressional Budget Act of 1974 did not establish formal procedures for control of these credit activities. The effort to do so began in 1981, when the Administration proposed and the Congress enacted a credit budget for the first time. Since then the Congress has continued and expanded its attempts to control federal credit activities.

The First Concurrent Resolution on the Budget for fiscal year 1983 established nonbinding credit budget targets for direct loan obligations,

---

1/ The 1974 credit estimates were taken from Congressional Budget Office, Loan Guarantees: Current Concerns and Alternatives for Control (January 1979).

primary loan guarantee commitments, and secondary loan guarantee commitments for 1983; it also revised targets previously set for 1982 (see Summary Table 1). The 1983 resolution also included procedural language that provided for binding credit aggregates upon enactment of the second resolution and established procedures for the enforcement of ceilings.

SUMMARY TABLE 1. COMPARISON BETWEEN THE BUDGET RESOLUTION AND THE CURRENT ESTIMATE (By fiscal year, in billions of dollars)

	1982		1983	
	Budget Resolution	Actual	Budget Resolution	Current Estimate
New Direct Loan Obligations	56.4 a/	47.8	53.0 a/	49.5 a/
New Primary Loan Guarantee Commitments	74.9	53.7	101.9	94.6
New Secondary Loan Guarantee Commitments	69.0	36.4	68.3	68.2

a/ The 1982 and 1983 budget resolution data, and the current estimate, have been revised to exclude the repurchase of loan assets from the FFB, to be consistent with the presentation of the President's budget.

As part of the implementation of these credit budget procedures, CBO tracked Congressional action on the credit budget and reported periodically to the Budget Committees on the status of the credit budget. CBO's current estimate for the credit budget for 1983 is shown in Summary Table 1. Direct loan obligations for 1983 are $3.5 billion below the resolution targets, and primary loan guarantees are $7.3 billion below the resolution targets.

This year, for the first time, CBO has prepared baseline projections of federal credit. Like other baseline projections, these show the levels of federal credit activities that would result if current policies were to remain in place. The limits set by appropriations actions for fiscal year 1983 are the base from which the majority of credit programs are projected. Exceptions to this rule are programs for which there are no appropriations limits (entitlements, defaults, and Federal Financing Bank transactions) and some programs for which the appropriations limits exceed the actual level of obligations or commitments that the program will generate. For both of these exceptions, CBO used the estimated program obligations or commitments in 1983 as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections in order to keep the limits constant with the projected rise in prices. Programs with 1983 base levels lower than appropriations limits were inflated in a similar fashion. The projections were limited by existing authorization ceilings on lending activity. Credit programs without appropriation limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or Federal Financing Bank (FFB) transactions for the individual accounts. In addition to the inflation rate, the major economic assumptions that affect baseline credit projections are interest rates, housing sales, and farm prices.

THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration proposes a credit budget for fiscal year 1984 of $125.5 billion in new lending, a reduction of $16.2 billion from the proposed 1983 level. Compared with CBO's revised baseline projections, the Administration's proposal would reduce total new lending during 1984-1988 by $145.1 billion, or 18 percent. Direct loans would average about $38 billion annually throughout the 1984-1988 period, a cumulative five-year reduction of $62.9 billion, or 25 percent from the CBO baseline projection. The level of primary loan guarantees rises substantially from 1982 actual obligations to 1983 but then, under the Administration's proposal, increases only very slightly by 1988. CBO's estimate of the Administration's policy proposals for primary guarantees represents a 15 percent reduction from the baseline projection for 1984-1988. Summary Table 2 shows changes in CBO's credit budget baseline projections proposed by the President's credit budget.

Administration proposals that would result in major changes from the CBO baseline are listed below:

Export-Import Bank Guarantees. A 1984 appropriation limit of $10 billion is proposed for Export-Import Bank loan guarantees, an increase of $1 billion over the level enacted in 1983 and of $577 million over CBO's baseline estimate. The increase represents part of the Administration's efforts to meet officially supported foreign competition. For 1985-1988,

SUMMARY TABLE 2. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986	1987	1988
CBO Baseline							
Direct loan obligations	47.8	49.5	49.1	48.2	50.0	52.4	53.7
Primary guarantee commitments	53.7	94.6	96.5	102.2	108.4	113.9	118.6
Total, new lending	101.5	144.1	145.6	150.4	158.4	166.3	172.3
Secondary guarantees	36.4	68.2	71.5	74.9	78.1	81.3	84.4
Proposed Changes							
Direct loan obligations	---	0.2	-9.7	-10.3	-12.6	-14.6	-15.7
Primary guarantee commitments	---	-2.5	-10.4	-13.3	-16.4	-19.8	-22.4
Total, new lending	---	-2.3	-20.1	-23.6	-29.0	-34.4	-38.1
Secondary guarantees	---	---	-12.8	-16.2	-19.5	-22.6	-25.7
President's Budget as Estimated by CBO							
Direct loan obligations	47.8	49.7	39.4	37.9	37.4	37.9	38.0
Primary guarantee commitments	53.7	92.0	86.1	88.9	92.0	94.1	96.2
Total, new lending	101.5	141.7	125.5	126.8	129.4	132.0	134.2
Secondary guarantees	36.4	68.2	58.6	58.6	58.6	58.6	58.6

the Administration assumes Export-Import Bank guaranteed loans would be held at the 1984 level, resulting in a reduction of $2 billion from the 1984-1988 baseline.

Rural Electrification Administration (REA). The Administration has requested 1984 limits of $575 million for direct loans and $3,360 million for loan guarantees. Since all REA transactions are financed through the FFB, the request is recorded as a $2.3 billion reduction in direct loan obligations from the baseline. The Administration assumes REA loan levels will be held at the 1984 level through 1988. It anticipates that an increase in the availability of supplemental financing from the National Rural Utility Finance Corporation and other sources will satisfy a part of the capital requirements of the rural electric systems. The total reduction from the 1984-1988 baseline would be $14.2 billion.

Commodity Credit Corporation (CCC). The Administration proposes $8.0 billion for CCC commodity price support loans, a $2.4 billion reduction from the current services estimates. The reduction reflects implementation of the payment-in-kind (PIK) program under existing authority. Under the PIK program, farmers are offered surplus commodities held in CCC reserves in exchange for reducing their production of wheat, feed grains, rice, or cotton. The estimated savings will result from reduced commodity loans. The CBO baseline and Administration estimates are the same for this program.

Rural Housing Insurance Fund (RHIF). The Administration has proposed to terminate new loans for rural housing assistance and to establish a block grant to states for rural housing. The number of low-income rural housing units would be reduced from 90,000 in 1983 to 3,000 in 1984. The total reduction from the 1984-1988 baseline would be $19.6 billion.

SBA Business Loan and Investment Fund (BLIF). The 1984 request for Small Business Administration's business loans proposes cuts for both direct loans and guarantees and assumes a lower level of direct loans for defaulting guarantees than provided in the baseline. The Administration proposes phasing down SBA loan guarantee assistance to $1.0 billion by 1987. The reduction of SBA assistance is an integral part of the Administration's effort to restrain and reduce federal credit programs. The Administration assumes that this will increase availability of private credit for businesses. The total reduction from the 1984-1988 baseline would be $9.7 billion.

Federal Housing Administration (FHA) Mortgage Assistance. For 1984, the Administration requested $39.8 billion for FHA loan guarantees, a reduction of $8.3 billion from the CBO baseline. The Administration assumes that the growing capacity of private mortgage insurers will reduce the need for federal assistance. Its estimates assume that FHA guarantees will be held at the 1984 level through 1988. The total reduction from the 1984-1988 baseline would be $63.4 billion.

Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The Administration requested a limitation of $58.6 billion for GNMA secondary guarantees in 1984, a cut of $12.8 billion from the baseline. For 1984-1988, its estimates fall $96.9 billion below the baseline.

SBA Disaster Loans. The Administration has proposed a limit of $440 million for SBA disaster loans. In the past the Congress has chosen not to limit SBA disaster loans. In light of previous Congressional action, the Budget Committees agreed to treat SBA disaster loans as an open-ended program. CBO estimates a loan level more than double that assumed by the Administration for 1984. The total reduction from the 1984-1988 baseline would be $2.8 billion.

Guaranteed Student Loans. Two significant changes are proposed for the guaranteed student loan program: needs analysis for all applicants, and an increase in the origination fee for graduate and professional student loans from 5 to 10 percent. CBO estimates that these changes will result in about a $1.0 billion decrease annually in guaranteed student loans from 1984 to 1988, resulting in a $4.9 billion reduction from the baseline.

As part of its analysis of the President's credit budget, CBO has reestimated the program to reflect CBO baseline economic assumptions and technical estimating methods. The net adjustment to direct loans is an increase of $0.3 billion in 1983, $0.6 billion in 1984, and a total of $2.9 billion from 1983 through 1988. The largest direct loan reestimate results from the reclassification of the guarantee reserve fund that was recorded by the Administration as a repurchase of loan assets. The guarantee reserve fund is used entirely to finance defaulting foreign military sales guarantees, which are not loan assets although they are held by the FFB. The reestimates to Tennessee Valley Authority (TVA) guarantees originated by the FFB and CCC commodity price support loans reflect less optimistic outyear economic assumptions. The lower estimates for the direct loans for the Veterans Administration (VA) direct loan revolving fund result from a reclassification of direct loans for defaulting guarantees to exclude property acquisition from the definition of direct loans.

The CBO estimate of the Administration's loan guarantee program resulted in decreases of $10.8 billion in 1983, $12.6 billion in 1984, and a cumulative decrease of $63.8 billion from 1983 to 1988. The largest reestimate was for VA loan guarantees. The Administration had originally estimated a 212 percent increase from the 1982 level to a 1983 loan guarantee volume of $18.6 billion, with a further increase to $19.9 billion in 1984. CBO assumed a more modest recovery for the housing industry--a 50 percent increase in loan volume in 1983 over 1982, and another 12.5 percent in 1984. CBO assumes a lower loan volume for the guaranteed student loan program, given Administration policy, than does the Administration.

IMPACT ON THE UNIFIED BUDGET

CBO estimates that the President's credit budget proposals will result in outlay savings, both on- and off-budget, of $3.1 billion in 1984 and $37.6 billion from 1984 through 1988 (see Summary Table 3). The cumulative outlay savings will be generated by a $145.2 billion cumulative reduction from baseline estimates of direct loan obligations and loan guarantee commitments. The budget deficit will be reduced only by the cuts in on-budget outlays: $0.3 billion in 1984 and $12.6 billion over the projections period. Treasury borrowing requirements--which include both on- and off-budget outlays--will be reduced by the total on- and off-budget decrease.

SUMMARY TABLE 3. IMPACT ON THE UNIFIED BUDGET OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
On-budget Outlay Impact	-0.3	-1.6	-1.9	-4.1	-4.7	-12.6
Off-budget Outlay Impact	-2.8	-4.0	-5.1	-6.1	-7.0	-25.0
Total	-3.1	-5.6	-7.0	-10.2	-11.7	-37.6

On-budget outlay savings result principally from proposed cuts in the rural housing insurance fund, the GNMA special assistance functions fund, and the SBA disaster loan fund. Reductions of $25.0 billion in off-budget outlays during 1984-1988 are all attributed to the FFB. Proposed cuts in the Rural Electrification Administration (REA) guarantees and SBA business and investment loan fund guarantees are estimated to save FFB outlays since the FFB originates all REA and some SBA guarantees. The largest off-budget savings are due to the legislative proposal to classify RHIF asset sales as agency debt. If the RHIF program were not being cut, off-budget outlays would be reduced but on-budget outlays increased. This is because agency debt requires borrowing authority and is not offset against on-budget outlays as are loan asset sales.

The proposed reduction of $145.2 billion in direct and guaranteed lending results in surprisingly small savings to the unified budget. While credit budget reductions can contribute to reducing the federal deficit, it does not appear that their contribution will be a large one.

CHAPTER I. INTRODUCTION TO THE CREDIT BUDGET

Federal credit activities have consequences far beyond their effects on the budget deficit. They tend to shift resources from some uses into others, or to maintain them in activities from which they would otherwise depart, or to put resources to work that would otherwise be temporarily idle.

In the absence of government intervention, credit and investment resources flow into those uses in which rates of return, adjusted for risk, are perceived to be highest. Enterprises facing low prospective rates of return receive little credit in private markets. The government may intervene to change this allocation if it believes market perceptions of profitability and risk are wrong, or if it believes the market fails to take into account significant social costs and benefits of some activities.

In its direct loan programs, the federal government utilizes its premier standing in the credit markets to borrow at a risk-free rate and lend to selected borrowers at a lower rate than the borrowers could have obtained on their own. If the government loan goes to a borrower who could not otherwise have obtained the funds, another potential borrower may be denied credit or "crowded out." The key elements in assessing the economic effects of such a reallocation of credit are to determine which borrower, the selected one or the one crowded out, would use the funds more productively and to determine whether the social benefits gained or cost avoided are worth any loss of economic efficiency.

Loan guarantees are similar in effect to direct loans. By assuming a large share of default risk, the government can move resources into uses that would otherwise be regarded as too risky to qualify for financing. A federal loan guarantee does not reduce the real risk involved in a project or activity. Instead, it shifts the burden of risk from lenders to taxpayers. Some less risky borrowers may be crowded out, and the net effect on productivity and economic growth then depends on the relative value of the supported and unsupported activities and on how much credit would have gone to the designated activity without federal intervention. Most federal financial assistance has been directed toward increasing the flow of credit into housing, agriculture, and troubled industries with low earnings.

17-762 O - 83 - 2

COMPOSITION OF THE CREDIT BUDGET

The credit budget includes both the loans the federal government makes and the loans it guarantees. A direct loan is a cash payment by a federal agency to a borrower to be repaid with interest over the life of the loan. Direct loans are almost always made at subsidized interest rates. A guaranteed loan is a contractual commitment by a federal agency to repay the principal and interest on a loan, in whole or in part, in case of default by the borrower. Guaranteed loans reduce the lenders' exposure to risk, but generally do not involve federal expenditures except when borrowers default.

The credit budget does not include the lending of privately-owned government-sponsored enterprises (e.g., the Federal National Mortgage Association, the Farm Credit System, and the Student Loan Marketing Association). These were established by the government to develop secondary markets for housing, agriculture, and student loans in an effort to improve liquidity for primary lenders by making their loans more attractive to a broader range of investors. The loans of these organizations are not guaranteed by the government, but are perceived to have the moral and political backing of the government.

Credit programs are understated in the unified budget. This is because the unified budget is presented in terms of the cash flow of the government--that is, expenditures and receipts. Direct loans are recorded in the unified budget on a "net" basis--the difference between the face amount of gross loans disbursed and the repayment of principal and interest on past loans. Programs with high activity levels may, therefore, appear negligible because of high repayment flows. Moreover, since repayments are not controllable, strict limits on net loan outlays are difficult to enforce. The unified budget also understates guaranteed loan activity. The credit advanced under guaranteed loans does not enter the budget at the time the loans are made because such loans do not involve any federal cash. The Congressional Budget Act of 1974 specifically excludes loan guarantees from the unified budget totals. (Thus, at decision time, loan guarantees are free goods as far as the unified budget accounting is concerned.) If and when borrowers default, the federal payment to the lender is recorded as an outlay. But because this budget entry is not recorded at the time the decisions are being made, default costs cannot be directly controlled.

The credit budget, on the other hand, is stated in terms of direct loan obligations and new loan guarantee commitments. Obligations for direct loans are contracts requiring that the government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the government to guarantee a loan when the borrower or lender fulfills stipulated preconditions. Both concepts define the point at which the government becomes legally bound to extend credit, the point most amenable to executive and legislative control.

From the time that a direct loan is obligated or a loan guarantee committed, there may be substantial delays before the loan is disbursed or guaranteed. For example, loans to rural electric cooperatives average seven years from obligation of the loan to the disbursement of the loan, when it has its spending impact.

The effect of the credit budget on federal spending is further confused by the distinction between on- and off-budget outlays. Off-budget outlays result from the transactions of the Federal Financing Bank (FFB) and the Rural Electrification Administration (REA), both of which have been excluded from the unified budget by their authorizing statutes. This distinction between on- and off-budget is not significant to the credit budget, which includes program levels for the lending activities of all agencies. All government lending activities affect credit markets equally, whether on- or off-budget.

CREDIT BUDGET ACCOUNTING

A number of adjustments must be made to gross direct loan obligations and gross loan guarantee commitments in order to assess the impact of the credit budget on the economy. The gross figures include not only new loan transactions to the public but also intragovernmental financing transactions; the latter must be netted out to derive the credit budget totals. Table I-1 shows the accounting for the credit budget.

Gross direct loans is the sum of all direct loan obligations of the government. Two classes of transactions must be removed in order to determine new direct loan obligations to the public:

- **FFB purchases of agency loan assets.** The Farmers Home Administration (FmHA) and the REA consolidate direct loans extended to participants in their programs into certificates of beneficial ownership (CBOs) and sell these assets to the FFB. Both the original loan by the agency to the farmer or rural electric cooperative and the purchase of the loan assets by the FFB are recorded as direct loans. The loan by the FFB is subtracted from the credit budget to remove double counting.

- **Repurchases of maturing loan assets.** The original sales of REA and FmHA loan assets to the FFB are for relatively short periods,

TABLE I-1. CREDIT BUDGET ACCOUNTING (Fiscal year 1982, in billions of dollars)

Direct Loan Obligations	
New direct loans to the public	47.8
Agency repurchases of loan assets from the FFB	7.2
FFB loan asset purchases	12.6
Gross direct loan obligations	67.6
Less	
FFB loan asset purchases	-12.6
Direct loan concept used in the budget resolution and the CBO baseline	55.0
Less	
Agency repurchases of loan assets	-7.2
Direct loan concept used in the President's budget and the revised CBO baseline	47.8
Loan Guarantee Commitments	
Gross loan guarantees	118.3
Less	
Secondary guarantees	-36.4
Guarantees of direct loans	
FFB loan asset purchases	-12.6
FFB origination of agency guarantees	-13.6
GNMA direct loans for FHA and VA guarantees	-2.0
Primary Guarantees	53.7

18 months to five years, to avoid long-term commitments at high interest rates. When the CBOs mature the agencies repurchase them by making new direct loans, a financing transaction rather than an extension of credit to a new borrower. The repurchases are subtracted from gross direct loan obligations. This adjustment was introduced by the Administration in constructing its 1984 credit budget. The Administration's shift understates the total volume of direct loan obligations, but more accurately reflects new credit market activity. The 1983 budget resolution's direct loan targets included the repurchases of loan assets, as did the CBO baseline projections. 1/ Repurchases have been subtracted from CBO's revised baseline projections presented later in this chapter.

In order to identify loan guarantees to private borrowers, intragovernmental transactions must be deducted from gross loan guarantee commitments. These intragovernmental transactions include guarantees of repayment of loans previously guaranteed--secondary guarantees--and guaranteed loans that originated as direct loans.

- **Government National Mortgage Association (GNMA) secondary guarantees.** GNMA guarantees the prompt repayment of securities backed by Federal Housing Administration (FHA) and Veterans Administration (VA) guaranteed loans, which increases the liquidity of the secondary market in FHA and VA loans. This secondary guarantee does not result in new loans or increase the contingent liability of the government and is therefore subtracted from gross guarantees.

- **Agency guarantees sold to the FFB.** The Rural Electrification Administration (REA) and the Department of Defense (through foreign military sales credit programs) and other agencies guarantee loans to borrowers and then sell the loans to the FFB. The loan is then originated by the FFB as a direct loan to a private borrower and recorded in the credit budget as an FFB direct loan. The guarantees are subtracted from gross guarantee totals.

1/ Baseline Budget Projections for Fiscal Years 1984-1988, February 1983--see Chapter V.

- **Guarantees of FFB loan asset purchases.** In order for Farmers Home Administration or REA to sell an asset to the FFB, the agency must guarantee its repayment. Agency guarantees of assets sold are subtracted from gross guarantees.

- **GMNA direct loans for FHA and VA guarantees.** GNMA purchases FHA and VA guaranteed loans with the direct loans of the special assistance functions fund. The credit budget records the GNMA direct loans and subtracts out the FHA and VA guaranteed loans.

Guarantees remaining after these four adjustments are primary guarantees--that is, guaranteed loans to new borrowers.

97th CONGRESS ACTION ON CREDIT

Credit in the Budget Resolution

The First Concurrent Resolution on the Budget for fiscal year 1983 established the Congressional credit budget for 1983. The resolution set non-binding targets for direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments for 1983, and revised the previously set targets for 1982. It further allocated these targets among the budget functions. The targets were provided for the current year and the budget year, but not for the outyears. Table I-2 shows the resolution totals

The resolution went beyond previous Congressional action on the credit budget in several respects. First, Section 3 required credit authorizations enacted during the life of the resolution to be effective only to the extent provided in appropriations bills. Second, Section 9(a) applied point-of-order enforcement on second resolution ceilings for the credit budget. In the past, only aggregate non-binding targets had been set. Third, Sections 9(b) and (c) required the allocation of the credit budget to appropriation and authorizing committees by the Budget Committees and allocation of the credit budget among major programs or subcommittees by the committees of jurisdiction. Finally, Section 7 established the first budget resolution as the second resolution for fiscal year 1983 if action on a second resolution had not been completed.

The action on the credit budget described above took place in the budget and appropriations processes. The Congress also considered formal changes in the Congressional budget process to make the credit budget a permanent and integral part of it. Legislation implementing various

TABLE I-2. COMPARISON BETWEEN THE BUDGET RESOLUTION TOTALS AND THE CURRENT ESTIMATE (By fiscal year, in billions of dollars)

	1982		1983	
	Budget Resolution	Actual	Budget Resolution	Current Estimate
New Direct Loan Obligations	56.4 a/	47.8	53.0 a/	49.5 a/
New Primary Loan Guarantee Commitments	74.9	53.7	101.9	94.6
New Secondary Loan Guarantee Commitments	69.0	36.4	68.3	68.2

a/ Revised to exclude the repurchase of loan assets from the FFB, to be consistent with the presentation in the President's budget.

credit budget procedures was introduced in both the House and the Senate. The Federal Lending and Oversight Control bill, H.R. 2372, introduced by Congressmen Mineta and Bethune and cosponsored by over 200 Members, sought to amend Titles III and IV of the Congressional Budget Act to incorporate credit in the budget process. Senator Percy introduced a companion bill in the Senate, S. 265. Senator Proxmire introduced the Truth in Budgeting Act, S. 2162, a bill that required the inclusion of the transactions of the Federal Financing Bank in the budget totals. Congressman Gradison sponsored a companion bill in the House.

The Senate Budget Committee established a temporary subcommittee on federal credit chaired by Senator Gorton during the second session of the 97th Congress. The subcommittee found the budgetary treatment of federal direct loans and loan guarantees incomplete in the context of the unified budget, in that the accounting methods understate the true level of credit activity. It recommended that government lending activities be permanently integrated in the Congressional budget process. The subcommittee also recommended more frequent executive branch reporting on actual direct loan obligations and loan guarantee commitments, standardized information on defaults, the termination of the treatment of defaulted loan guarantees as new direct loans, and the adoption of legislation that would attribute the budget authority and outlays of the Federal Financing Bank to the agency effecting the credit transaction.

CBO Current Estimate for 1983

Implementation of the credit budget procedural requirements included in the first resolution required CBO to keep score on Congressional actions on the credit budget. Upon enactment of a second resolution, the credit budget targets were to become binding ceilings. It would be CBO's responsibility to advise the Congress if those ceilings were exceeded. Throughout the second session of the 97th Congress, CBO provided the House and Senate Budget Committees with reports on the current status of the credit budget. CBO's current estimate for 1983 also served as the base for the baseline credit budget projections in this report.

Source of Credit Program Levels. The credit program levels that make up the credit budget are determined by different types of Congressional action, a majority of which are in the jurisdiction of the Appropriations Committees. The most straightforward are enacted annual appropriations limits on credit program levels. Long before the advent of the credit budget, the Appropriations Committees set limits on Farmers Home Administration (FmHA) new direct loan obligations and new loan guarantee commitments. After the credit budget was initiated, the Administration began to submit proposed appropriations limits as part of its credit budgets. As shown in Table I-3, 30 percent of the 1983 current estimate for direct loan obligations and 69 percent for loan guarantee commitments were established by appropriations limits. Loan levels for a limited number of programs--e.g., Public Law 480, the Food For Peace program--are determined directly by appropriations of budget authority. These amount to $0.8 billion of the 1983 current estimate. The appropriations limits on program levels also indirectly control the volume of FHA and REA loan assets and related guarantees and the volume of some guarantees sold to the FFB, e.g., those of REA and the foreign military sales credit program.

The levels of other credit programs are determined both by program characteristics established in authorizing statutes and by program levels set in appropriations bills. The volume of direct loans for defaulting guarantees for the foreign military sales credit program, for example, is influenced by appropriations limits on loan volume and by authorizations that specify eligible borrowers.

Finally, there are a limited number of credit programs where the loan levels are determined by the program authorization. Veterans Adminis-

TABLE I-3. SOURCES OF CREDIT PROGRAM LEVELS (In billions of dollars)

	1982 Actual	1983 Budget Resolution	1983 Current Estimate
Direct Loan Obligations			
Annual appropriations limits	23.1	21.2	14.9
Appropriation of budget authority	0.8	0.8	0.8
Repurchase of maturing loan assets a/	(7.2)	(6.7)	(6.7)
Sale of agency loan assets to the FFB a/	(12.6)	(14.1)	(11.5)
Sale of agency-guaranteed securities to the FFB	15.6	15.8	15.4
Defaulting loan guarantees	2.3	2.7	2.5
Unrestricted program authorizations	6.0	12.5	15.9
Gross direct loan obligations	47.8	53.0	49.5
Loan Guarantee Commitments			
Annual appropriations limits	74.4	132.7	133.7
Guarantees of agency loan asset sales to FFB	12.6	14.1	11.5
Unrestricted program authorizations	31.3	55.2	44.5
Gross loan guarantee commitments	118.3	202.0	189.7
Adjustments to exclude intra-governmental transactions	-64.6	-100.1	-95.1
Primary loan guarantees	53.7	101.9	94.6

a/ Amounts in parentheses are intragovernmental transactions not included in the credit budget totals.